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ZNY CCCCC ZZH  
P 031327Z MAR 08  
FM AMEMBASSY ALGIERS  
TO RUEHC/SECSTATE WASHDC PRIORITY 5380  
INFO RUEHHH/OPEC COLLECTIVE  
RUEHMD/AMEMBASSY MADRID 8840  
RUEHFR/AMEMBASSY PARIS 2591  
RUEHRO/AMEMBASSY ROME 0452  
RUEHRB/AMEMBASSY RABAT 2213  
RUEHTU/AMEMBASSY TUNIS 7066  
RUEHNC/AMEMBASSY NOUAKCHOTT 6262  
RUEHNM/AMEMBASSY NIAMEY 1503  
RUEHUJA/AMEMBASSY ABUJA 0054  
RUEHBP/AMEMBASSY BAMAKO 0450  
RUEHCL/AMCONSUL CASABLANCA 3296  
RHEBAAA/DEPT OF ENERGY WASHDC  
RHMFISS/HQ USEUCOM VAIHINGEN GE

C O N F I D E N T I A L ALGIERS 000254

SIPDIS

SIPDIS

STATE FOR NEA/MAG (FLOWERS)  
STATE PASS FOR USTR (BURKHEAD)  
COMMERCE FOR ITA/MAC/ONE (NATE MASON) AND ADVOCACY CENTER  
(REITZE)

E.O. 12958: DECL: 02/25/2018  
TAGS: [ENRG](#) [EPET](#) [EINV](#) [ETRD](#) [AG](#)  
SUBJECT: ENERGY MINISTER KHELIL: GOT GAS?

REF: A. 07 ALGIERS 1783  
[1](#)B. ALGIERS 102

CLASSIFIED BY: AMBASSADOR ROBERT S. FORD; REASONS 1.4 (B) AND (D).

[1](#)1. (C) SUMMARY: ALGERIAN ENERGY MINISTER KHELIL TOLD OPIC CEO MOSBACHER FEBRUARY 23 THAT ALTHOUGH ALGERIA CAN MEET ITS CURRENT NATURAL GAS CONTRACTS AND INTERNAL CONSUMPTION DEMAND, THE COUNTRY NEEDS TO FIND MORE GAS. IN ORDER TO INCREASE GAS CAPACITY, KHELIL SAID THAT HYDROCARBON PARASTATAL SONATRACH IS OFFERING 15 NEW BLOCKS FOR EXPLORATION. IN ADDITION, SONATRACH IS WORKING ON A PROJECT TO BUILD A PIPELINE FROM NIGERIA TO EUROPE AND WILL COMPLETE PIPELINES TO SPAIN AND ITALY BY THE END OF THE YEAR, HE STATED. ON FEBRUARY 24, ALGERIAN NEWSPAPERS CARRIED STATEMENTS BY KHELIL, WHO CURRENTLY HOLDS THE OPEC PRESIDENCY, DISCUSSING THE CREATION OF AN OPEC FOR GAS. MEANWHILE, FOREIGN OIL AND GAS EXECUTIVES TELL US THEY WILL SEEK TO EXPLORE THE NEW BLOCKS, NOT BECAUSE THEY ARE ENAMORED WITH WORKING IN ALGERIA, BUT BECAUSE THE ENTIRE MARKET IS DESPERATE FOR NEW GAS DISCOVERIES. END SUMMARY.

MORE NATURAL GAS NEEDED  
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[1](#)2. (C) REFERRING TO ALGERIA'S NATURAL GAS CAPACITY, MINISTER OF ENERGY AND MINES CHEKIB KHELIL TOLD OPIC PRESIDENT AND CEO ROBERT MOSBACHER, JR., IN A FEBRUARY 23 MEETING THAT "NOT MUCH IS LEFT TO SELL," CONFIRMING INDUSTRY SPECULATION (REF A). KHELIL NOTED THAT ALGERIA HAS AN ADEQUATE SUPPLY OF NATURAL GAS TO MEET ITS CURRENT CONTRACTS AND INTERNAL CONSUMPTION DEMAND, BUT ADDED THAT ALGERIA NEEDS MORE. KHELIL SAID THAT THERE WERE 20 NEW ONSHORE DISCOVERIES LAST YEAR AND THAT REPSOL, TOTAL AND GAZ DE FRANCE ARE DEVELOPING A NEW GAS REGION IN REGGANE, SOUTH OF ADRAR. KHELIL NOTED THAT SONATRACH IS OFFERING 15 NEW BLOCKS FOR OIL AND GAS EXPLORATION (REF B), WITH COMPANIES NOW SUBMITTING EXPRESSIONS OF INTEREST TO PREQUALIFY. ACCORDING TO KHELIL, THE EXPRESSIONS OF INTEREST WILL BE EVALUATED ON THE BASIS OF EXPERTISE AS WELL AS FOR OFFERS FOR SONATRACH PARTICIPATION. KHELIL HAS

PREVIOUSLY STATED THAT SONATRACH IS INTERESTED IN EXPANDING ITS INTERNATIONAL OPERATIONS. THUS FAR, KHELIL STATED, 20 COMPANIES -- INCLUDING EXXON, SHELL, BP AND CONOCO-PHILLIPS -- HAVE PRE-QUALIFIED, WITH ANOTHER MONTH LEFT IN THE PROCESS.

#### SHELL COUNTRY DIRECTOR CAUTIOUS ON ALGERIA

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13. (C) MICHAEL BLAHA, SHELL'S ALGERIA COUNTRY DIRECTOR, TOLD AMBASSADOR ON FEBRUARY 13 THAT THE OUTLOOK FOR ALGERIA'S ABILITY TO MEET CONSUMER DEMAND THREE TO FIVE YEARS FROM NOW WAS GRIM WITHOUT NEW DISCOVERIES AND PRODUCING FIELDS. CHIEF AMONG THE REASONS BLAHA LISTED WAS A DRAIN OF HUMAN RESOURCE AND TECHNICAL EXPERTS FROM HASSI MESSAOUD AND HASSI R'MEL -- BLAHA SAID THAT OVER THE PAST YEAR SONATRACH HAD LOST 500 DRILLING STAFF TO HIGHER-PAYING JOBS ELSEWHERE. BLAHA STRESSED THAT THERE WAS "NOT ENOUGH DEVELOPMENT WORK" GOING ON, AND BECAUSE OF POOR MANAGEMENT THE ENTIRE SYSTEM WAS NOT LIMBER ENOUGH TO ADJUST AND RESPOND TO MARKET IMPERATIVES. ACCORDING TO BLAHA, KHELIL AND THE SENIOR MANAGEMENT OF SONATRACH ARE AWARE OF THE PROBLEM, BUT UNABLE TO DO ANYTHING ABOUT IT. THE RESULT, BLAHA SAID, IS A DESPERATE STRATEGY TO PUMP AS MUCH OUT OF THE GROUND AS POSSIBLE IMMEDIATELY, TO CAPITALIZE ON HIGH OIL AND GAS PRICES, WITH LITTLE OR NO PRACTICAL CONSIDERATION FOR THE FUTURE. WHAT FIELDS DO REMAIN IN ALGERIA, BLAHA SPECULATED, ARE NEVER LARGE AND NEVER EASY OR COST-EFFECTIVE TO DEVELOP.

#### NEW GAS INFRASTRUCTURE IN THE PIPELINE

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14. (U) IN ADDITION TO THE NEW BLOCKS FOR EXPLORATION, KHELIL OUTLINED FOR MOSBACHER SONATRACH'S PIPELINE PROJECTS. KHELIL SAID THAT SONATRACH IS CURRENTLY WORKING WITH SHELL AND CHEVRON ON A PROJECT TO BUILD A NEW PIPELINE FROM NIGERIA. THE TRANS-SAHARAN GAS PIPELINE WILL CONNECT NIGERIA TO EUROPE WITH AN ESTIMATED SPAN OF OVER 4,100 KILOMETERS. (ACCORDING TO ALGERIAN PRESS REPORTS, KHELIL VISITED NIGERIA FEBRUARY 25-26 TO DISCUSS THE PROJECT.) IN ADDITION, KHELIL NOTED THAT THE EXPANSION OF THE EXISTING TRANSMED PIPELINE THROUGH TUNISIA TO ITALY AND THE PIPELINE TO SPAIN WILL BE COMPLETED BY THE END OF THE YEAR. THE PROJECT WILL EXPAND EXPORT CAPACITY BY SEVEN BILLION CUBIC METERS EACH YEAR, ACCORDING TO KHELIL. BLAHA SAID THERE IS "NO WAY" TO MIRACULOUSLY FINISH THESE INFRASTRUCTURE PROJECTS ON THE TIMELINE KHELIL ADVERTISES IN PUBLIC. BLAHA ACKNOWLEDGED THAT HIGH MARKET PRICES HAVE MADE THE TRANS-SAHARA PIPELINE FROM NIGERIA COST-EFFECTIVE. THE TRANS-SAHARA PROJECT SHOULD BRING SOME RELIEF TO EUROPEAN CONSUMERS, EVEN THOUGH IT WOULD RENDER ALGERIA ESSENTIALLY A TRANSIT ROUTE RATHER THAN A PRODUCING COUNTRY.

#### A GAS OPEC?

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15. (U) ON FEBRUARY 24, ALGERIAN NEWSPAPERS CARRIED STATEMENTS FROM KHELIL REGARDING THE CREATION OF AN OPEC FOR GAS. KHELIL, WHO CURRENTLY HOLDS THE OPEC PRESIDENCY, STATED THAT THE CREATION OF SUCH A GROUP WOULD BENEFIT ALGERIA. HE CONFIRMED THAT A WORKING GROUP COMPOSED OF ALGERIA, RUSSIA, IRAN AND QATAR IS CURRENTLY STUDYING THE IDEA AND WILL SUBMIT PROPOSALS AT THE JUNE OPEC MEETING IN MOSCOW. ACCORDING TO KHELIL, THE CREATION OF A SIMILAR ORGANIZATION FOR GAS WOULD FIRST NECESSITATE THE CREATION OF AN INDEPENDENT MARKET FOR GAS, WHERE GAS PRICES ARE NOT INDEXED TO OIL PRICES.

#### COMMENT: CAN SONATRACH KEEP UP WITH KHELIL?

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16. (C) AS HYDROCARBONS EXECUTIVES HERE ARE QUICK TO NOTE, CHEKIB KHELIL IS AN INFORMED EXPERT IN HIS FIELD, OFTEN TO THE POINT OF ARROGANCE. IT IS CLEAR FROM OUR FEBRUARY 23 MEETING WITH HIM THAT THE ENERGY MINISTER IS AWARE OF THE SUPPLY PROBLEM IN ALGERIA'S GAS SECTOR, AND HE PAINTS AN AGGRESSIVE AND IDEALISTIC PICTURE OF THE WAY THINGS SHOULD

BE. AS WE HAVE REPORTED IN REF A, HOWEVER, THE CHALLENGE FOR ALGERIA TO MAINTAIN GAS SUPPLIES TO EUROPE IS A BIG ONE, ESPECIALLY IF BLAHA'S GUESS PROVES TRUE THAT FUTURE GAS FINDS WILL BE SMALLER THAN THE LARGE HASSI R'MEL FIELD NOW PROVIDING THE BULK OF ALGERIAN PRODUCTION. FOREIGN OIL AND GAS EXECUTIVES TELL US SONATRACH IS BURDENED BY A HEMORRHAGE OF QUALIFIED PERSONNEL COMPOUNDED BY CHRONIC MISMANAGEMENT OF EXISTING OIL AND GAS FIELDS THAT CRIPPLES ALGERIA'S ABILITY TO MATCH THE PACE KHELIL OUTLINES IN PUBLIC AND PRIVATE. SONATRACH IS EAGER TO BE A MAJOR PLAYER IN THE EUROPEAN MARKET, A BRAND NAME TO RIVAL REPSOL, TOTAL AND AGIP, BUT ITS AMBITION HAS EXCEEDED THE PACE OF EXPLORATION AND INFRASTRUCTURAL DEVELOPMENT WITHIN THE DOMESTIC GAS SECTOR. FOREIGN OIL AND GAS EXECUTIVES TELL US THEY WILL SEEK TO EXPLORE THE NEW BLOCKS BECAUSE THE MARKET IS DESPERATE FOR NEW GAS DISCOVERIES. THE OUTCOME OF EXPLORATION AND DEVELOPMENT OF THE 15 NEW BLOCKS APPEARS TO BE KEY IN DETERMINING WHETHER ALGERIA WILL REMAIN ONE OF THE WORLD'S TOP NATURAL GAS EXPORTERS INTO THE 2020S.